



Memo

25 July 2003

To: *

From: J. K. Hagerty
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Subject: **Recommended Escalation Rates**

The following overall composite escalation rates can be used for budget planning to estimate the constant dollar costs of providing materials and services for 2003 and beyond. These rates should be used where specific contractual prices are not otherwise available, or, more detailed escalation rates have not been provided.

Table 1.
RECOMMENDED ESCALATION RATES
2003 - 2013

<u>Year</u>	<u>Materials</u>	<u>Labor</u>	<u>GDP Price Deflator</u>	<u>Consumer Price Index</u>	<u>Total Electric Utility O & M</u>	<u>Total Gas Utility O & M</u>
2003	-0.1%	3.2%	1.6%	2.2%	2.7%	3.1%
2004	0.4%	4.0%	1.6%	1.5%	2.4%	2.4%
2005	1.3%	4.3%	2.2%	2.2%	2.6%	2.7%
2006	1.6%	4.1%	2.4%	2.4%	2.5%	2.8%
2007	1.4%	4.2%	2.4%	2.6%	2.5%	2.7%
2008	1.3%	4.6%	2.5%	2.7%	2.5%	2.6%
2009	1.2%	4.7%	2.6%	2.8%	2.7%	2.9%
2010	1.2%	4.8%	2.6%	2.9%	2.6%	2.8%
2011	1.3%	4.8%	2.7%	3.0%	2.7%	2.9%
2012	1.2%	4.9%	2.7%	3.0%	2.8%	2.9%
2013	1.2%	5.0%	2.8%	3.1%	3.0%	3.2%
C.A.G.R. 2003-13	1.2%	4.5%	2.5%	2.6%	2.6%	2.8%

N. B. - O&M escalation is net of Labor expenses.

Table 2.
RECOMMENDED ESCALATION RATES
2003 - 2013

Electric Utility O & M							
Year	Generation		Transmission		Distribution		General Services *
	Operations	Maintenance	Operations	Maintenance	Operations	Maintenance	
2003	1.9%	0.8%	1.6%	0.8%	2.3%	0.5%	3.2%
2004	1.2%	0.8%	0.7%	0.8%	1.2%	0.4%	2.7%
2005	2.4%	1.5%	2.0%	1.3%	1.7%	1.9%	3.4%
2006	2.0%	1.5%	2.4%	1.0%	1.9%	0.6%	3.1%
2007	2.3%	2.0%	2.3%	1.9%	2.4%	1.8%	3.1%
2008	2.1%	1.9%	1.9%	1.7%	2.2%	1.3%	3.1%
2009	2.2%	2.0%	2.1%	1.5%	2.2%	1.3%	3.0%
2010	1.9%	2.1%	1.4%	1.5%	1.8%	1.6%	2.9%
2011	2.2%	1.9%	2.0%	1.6%	2.0%	1.6%	3.2%
2012	2.1%	2.0%	1.8%	1.6%	1.9%	1.6%	3.1%
2013	2.3%	2.1%	2.1%	1.7%	2.0%	1.6%	3.2%
C.A.G.R. 2003-13	2.1%	1.8%	1.9%	1.4%	1.9%	1.4%	3.1%
Gas Utility O & M							
Year	LNG Storage		Transmission		Distribution		General Services *
	Operations	Maintenance	Operations	Maintenance	Operations	Maintenance	
2003	2.6%	1.5%	3.4%	1.0%	3.0%	1.6%	2.8%
2004	2.0%	0.9%	1.2%	1.5%	1.5%	1.5%	2.5%
2005	2.3%	1.4%	2.2%	1.8%	2.1%	2.1%	2.7%
2006	2.2%	1.6%	2.4%	1.8%	2.1%	2.1%	2.7%
2007	2.2%	1.5%	2.4%	1.6%	2.1%	1.9%	2.6%
2008	1.8%	1.5%	2.2%	1.6%	1.8%	1.9%	2.2%
2009	2.3%	1.5%	2.5%	1.6%	2.2%	1.9%	2.7%
2010	2.0%	1.5%	2.3%	1.7%	2.0%	1.9%	2.3%
2011	2.2%	1.6%	2.5%	1.7%	2.2%	2.0%	2.5%
2012	2.2%	1.6%	2.4%	1.7%	2.2%	1.9%	2.4%
2013	2.7%	1.7%	2.9%	1.7%	2.6%	2.0%	3.2%
C.A.G.R. 2003-13	2.2%	1.5%	2.3%	1.7%	2.1%	1.9%	2.6%

N. B. - O&M escalation is net of Labor expenses.

Please note, the Utility O & M escalation rates above are **net of fuel and labor costs**. The General Services escalator includes Customer Accounts, Customer Services and Information, Sales, and Administration and General Accounts. Please refer to instructions forthcoming from Management Information and Budgeting Services for the correct application of these rates and those above for the 2004 Budget.

Recipients of this memo are asked to insure that those in their area who require these escalation rates for their analyses receive them. If you believe there are individuals not on the list who should be, please contact me to express your concern. Also note, the recommended rates are for estimating purposes only. It is the intent of the company to strive to achieve the lowest possible costs.

The recommended escalation rates are developed by Global Insight, Inc. Global Insight is viewed as a credible, independent source by the regulatory community. The rates are presented in their Review of the U.S. Economy, July 2003 and the Global Insight Utility Cost and Price Review, 2nd Qtr. 2003. They have been reviewed for reasonableness by the Economic and Load Forecasting Department. The projections for **Materials** and **Labor** are based on the following concepts: Wholesale Price Index - Finished Capital Goods and Compensation per Hour - Nonfarm Business Sector, respectively.